Does Aurora's (TSX:ACB) Latest Update Make the Stock a Buy Heading Into Earnings?

Description

Aurora Cannabis Inc (TSX:ACB)(NYSE:ACB) is expected to release its year-end results around mid-September. However, last week, the company gave investors an update with respect to how it has been doing and where it expects to finish the year.

In the past, the company issued warnings stating that it was going to miss expectations. However, this time around, things were a lot more positive, as the company said that it expected to do better than expected.

Previously, the company stated that its production would be around 25,000 kilograms for the quarter, and now, it expects that amount to be closer to 30,000 kilograms.

Net revenue for Q4 is also expected to reach between $100 million to $107 million, which would be an astronomical increase from the $19.1 million that it generated in sales just one year ago.

For the full year, Aurora expects revenue after excise to reach between $249 million to $256 million. For fiscal 2018, Aurora's sales were $55 million.

In addition to sales, Aurora noted that it anticipates improvements in many key performance indicators, including gross margin and cash costs per gram produced.

While the company did mention that it "continues to track toward positive adjusted EBITDA," it didn't provide any figures on where it expects its bottom line to come in at.

Key takeaways for investors

What stood out to me was what Aurora didn't talk about in its update. There was no mention of profits, earnings or cash flow in its press release. Given where the industry is today, these are some of the most important numbers for investors.

As strong as the company’s sales growth is, if Aurora is still nowhere near profitability or generating positive cash flow, then it still might not be enough to get investors on board.

If the best the company can do is to say that it is “on track” to reach a positive adjusted EBITDA number, that tells me it has a long way to go to becoming profitable.

EBITDA excludes non-cash items while adjusted EBITDA takes out even more expenses out of the mix. While some people may argue that non-recurring or irregular expenses shouldn’t be included in the earnings number, the reality is for a company that’s growing as rapidly as Aurora is, a case can be made that they’re part of the company’s foreseeable future and that they shouldn’t be brushed aside.

As long as expansion and acquisition are part of the company’s strategy, costs related to that should be considered as well.

Aurora has struggled heavily over the past few months and it’s going to need a strong finish to the year if it wants to get its stock price back up.

Bottom line

While Aurora expects to see an improvement in its top line for Q4, I’m not optimistic that we’ll see much improvement further down the company’s financials. Until that happens, Aurora is still going to be a risky investment.

Cannabis investors have been looking for more than just revenue growth from a company, and if Aurora posts a big loss in its year-end results, its strong sales numbers may do little to prevent the stock from plummeting further down in price.

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